



McLeodUSA

MCLD

Market Outperformer

High Yield Research

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06/22/2000

Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$500mm	0/10.500%	SrDisc	03/01/07	B1/B+	105.25	3 /02	81.50	11.10	476	O
\$500mm	8.125%	SrNotes	02/15/09	B1/B+	102.71	2 /05	90.00	9.87	367	O
\$300mm	8.375%	SrNotes	03/15/08	B1/B+	104.19	3 /03	91.00	10.07	380	O
\$225mm	9.250%	SrNotes	07/15/07	B1/B+	104.62	7 /02	96.00	10.05	372	O
\$300mm	9.500%	SrNotes	11/01/08	B1/B+	105.40	11/04	97.00	10.03	381	O

Balance Sheet

(US\$, millions)

	4Q99	1Q00
Cash & equivalents	\$1,230	\$1,030
10.5% Sr. Disc. Nts.	401	411
9.25% Sr. Nts.	225	225
8.375% Sr. Nts.	300	300
9.5% Sr. Nts.	300	300
8.125% Sr. Nts.	500	500
11.75% Sr. Nts. (Splitrock)		261
Other debt	80	80
Total Debt	1,806	2,077
Gross PP&E	1,437	1,865

Income Statement

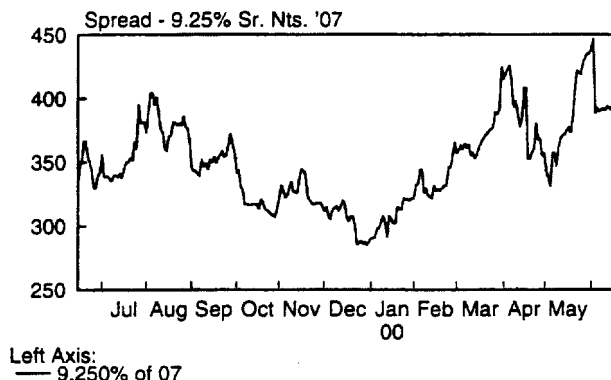
(US\$, millions)	4Q99	1Q00	2000E
Telecom revenue	206.0	218.9	1,108.8
Directory/telemarketing revenue	57.9	69.4	266.4
Total revenue	263.9	288.3	1,375.2
Gross margin	51%	49%	43%
EBITDA	24.0	18.0	50.0
EBITDA/Interest	0.6x	0.4x	0.2x
Gross PP&E/Total debt	0.8x	0.9x	0.9x

Company Description

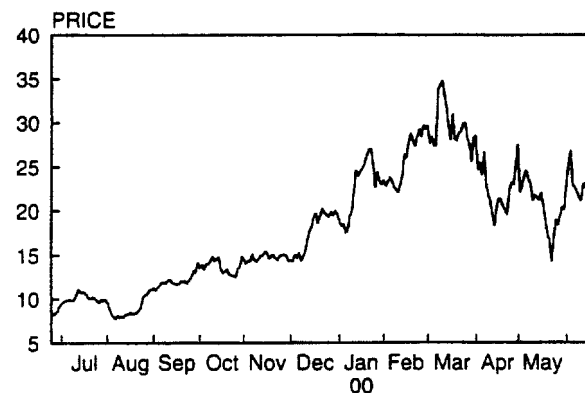
McLeodUSA is a competitive communications provider operating in several Midwestern and Rocky Mountain states; long distance and advanced data services are available in all 50 states. McLeodUSA has grown profitably by reselling partitioned Centrex services, directory publishing (yellow pages advertising), Incumbent Local Exchange Carrier (ILEC) services, and — most recently — facilities-based Competitive Local Exchange Carrier (CLEC) services. McLeodUSA is unique because of its managed, profitable growth, low customer churn, high customer penetration, and aggressive integrated offering of combined directory advertising and telecom services for small businesses.

During the first quarter, McLeodUSA installed 70,500 access lines, 6,000 lines above our estimate. The company increased its CLEC lines in service by more than 12% from 579,000 to 649,500. This represents the fifth quarter in a row that McLeodUSA has had double-digit growth in CLEC lines installed. Of the 70,500 CLEC lines installed during the

McLeodUSA



Equity Closing Price



quarter, 55% were on-switch, an increase of 10% over the 45% installed on-switch in the fourth quarter of 1999. Approximately 37% of the cumulative lines installed were on-switch at March 31, 2000. As the company emphasizes its on-switch strategy, we think McLeodUSA will realize significant improvement in its margins while it transitions away from resale line additions.

McLeodUSA intends to do the following: provide integrated communications services, provide outstanding customer service, expand fiber optic network, expand intra-city fiber network build; publish and distribute directories to local area subscribers; and provide end to end data communications.



The acquisition of Splitrock on March 30, 2000, added the end-to-end communications services on the Splitrock network in all 50 states. The Splitrock network reaches 800 cities and 905 of the U.S. population.

Highlighting the fact that McLeodUSA is no longer highly dependent on its core Iowa and Illinois markets, the company estimates that it currently maintains at least a 40% market share in Iowa and Missouri, a 30% market share in North Dakota, South Dakota, and Wyoming, and more than a 20% market share in six other states.

Recent Developments

- For the first quarter of 2000, McLeodUSA exceeded our revenue and EBITDA estimates. Total revenue was \$288.3 million, a 9% sequential increase over the \$263.9 million reported for the fourth quarter, and 2% better than our estimate of \$283.3 million. McLeodUSA's CLEC revenue grew 7% sequentially from \$144.6 million to \$154.2 million in the quarter, and its ILEC and private line/data revenue grew 5% and 18%, respectively. Revenue from reciprocal compensation was \$5 million in the first quarter versus \$10 million in the fourth quarter. McLeodUSA continues to benefit from increased revenue contributed by its directory business, which grew 22% sequentially from \$53 million in the fourth quarter to \$64.8 million. We are maintaining our year 2000 revenue estimate of \$1.38 billion.
- McLeodUSA announced that it had reached an agreement with U S West regarding certain interconnection and rate arrangements. McLeodUSA agreed to retract its opposition to the pending U S West Qwest merger. In return, U S West agreed to extend any outstanding McLeodUSA Centrex agreements through the later of December 31, 2002, or expiration of the agreement if later than 2002. In addition, McLeodUSA will adopt a bill-and-keep arrangement in all U S states for reciprocal compensation payments, effective immediately. Furthermore, U S West does not have the right to retroactively reset reciprocal compensation rates or true up any payments established with this agreement.
- On April 12, 2000, McLeodUSA announced that it had received a commitment for \$1 billion of senior secured credit facilities. It has since been upsized to \$1.3 billion. McLeodUSA expects to use the additional \$300 million to take out \$261 million of Splitrock senior notes.

Relative Value

We reiterate our Market Outperformer rating on McLeodUSA's bonds after the company released stronger-than-expected first quarter results. In our view, the company is succeeding in building both a robust regional network and a nationwide data footprint with the continued integration of the Splitrock acquisition.

McLeodUSA ranked first in our CLEC analysis, but its Sr. Notes trade wide to ITC Deltacom (ranked 5th) Sr. Notes and only 50 basis points tighter than Intermedia (ranked 10th) Sr. Notes. As our analysis indicates, we think McLeodUSA is a

significantly stronger credit than the other two carriers.

McLeodUSA is fully funded with over \$1 billion in cash and an untapped \$1.3 billion credit facility.

Credit Strengths

- McLeodUSA's first quarter revenue increased 9% sequentially from \$263.9 million in the fourth quarter to \$288.3 million, and the company beat our EBITDA estimate of \$13 million by \$5 million.
- McLeodUSA and U S West reached an agreement concerning certain payment and interconnection agreements. We think this development bodes well for bondholders because it increases the certainty of several revenue streams and stabilizes the relationship between McLeodUSA and U S West, reducing legal distraction going forward.
- McLeodUSA is funded to free cash flow positive with \$1.0 billion of cash on hand and an untapped \$1.3 billion credit facility.
- McLeodUSA has expanded its business with profitability and customer retention in mind. The company's revenue run rate exceeds \$1.2 billion, and it has a 6.3% EBITDA margin without significant exposure to reciprocal compensation. Furthermore, McLeodUSA is now building network facilities which should support the expansion of its EBITDA margin over the next five years.

Credit Challenges

- McLeodUSA is entering a number of new markets throughout the U S West territory. From our discussion with many CLECs, U S West is one of the most difficult RBOCs to obtain unbundled loops and interface with number portability, which are both critical. There is some new market execution risk. Furthermore, McLeodUSA is deploying fiber, switches, and network equipment in its current markets, and there will be some conversion risks as customers are rolled over to McLeodUSA facilities.

Outlook

The company aims to expand its EBITDA margin 400-500 basis points per year over the next five years by transitioning more of its customer traffic to fully owned facilities and expanding the lucrative data services segment. We expect McLeodUSA to report total revenue of \$1.375 billion for 2000 and EBITDA of \$50 million. Based on our model, the company is fully funded through free cash flow positive in 2003.

Industry Trends

The competitive local exchange carrier (CLEC) opportunity is a significant one. With less than a 5% total market penetration, CLECs are targeting under-served customers of the incumbent local exchange carriers (ILECs), which are



former monopolies. The growing demand for affordable bandwidth should give CLECs an opportunity to acquire customers as long as they adhere to attractive pricing, high quality customer service, and differentiated offerings. In our view, a CLEC needs four key elements to succeed:

- 1) Management and sponsorship
- 2) Access to capital
- 3) Successful execution of the stated business plan
- 4) The maintenance of a consistent strategy with investors

We follow 13 CLECs in the high yield market. Because most of these companies are still in the build-out mode and currently operating with negative cash flow (EBITDA), we carefully track the trends in revenue growth and margin improvement. In 2000, we expect most of the CLECs we rate Market Outperformer to achieve double-digit sequential revenue growth each quarter — especially in local telecommunications and data services. We also look for several carriers to improve their gross margins and SG&A expense controls. Most of the carriers that we rate Market Performer have fallen behind in hitting their revenue growth targets and/or failed to improve their margins. Because the high yield market is currently difficult for most CLECs to access, we are concerned with the liquidity outlook for some of the carriers that have fallen behind.

In the first quarter, the CLECs in our comparison group increased revenues sequentially by over 12%, collectively reaching \$1.3 billion. EBITDA losses for the group were \$(162.5) million, including five companies generating positive EBITDA. Gross property, plant, and equipment for the group totaled \$13.26 billion, and the group has \$18.7 billion in total debt and \$5.2 billion in redeemable preferred. The group's enterprise value is now \$66.8 billion, which is a 60% increase over its total when we published our book for the 1999 Goldman Sachs Leverage Finance Conference in October of 1999. The total installed lines of the group grew 20% sequentially to 4,809,115 lines. All of the CLEC lines pale in comparison to the five Regional Bell Operating Companies (RBOCs) and GTE, which have over 160,000,000 installed lines. There is plenty of market opportunity. The CLECs also continue to make significant progress in moving lines onto their networks or switches via unbundled network elements (UNEs), which should contribute to improving gross margins in the future.

The group remains reasonably funded, with total cash at the end of the first quarter of \$10.7 billion. We are concerned about the liquidity of a few CLECs in our group, such as Adelphia Business Solutions, CapRock Communications, and KMC Telecom. Over the past 18 months, more than \$9.5 billion in private equity has funded various CLECs through their capital shortfalls, and some carriers have turned to the bank market. Given the current state of the high yield market, we think CLECs will continue to look to those sources for capital.



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Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$65mm	13.000%	SrSecNts	10/01/04	B3/B-	106.50	10/01	105.00	11.47	523	MP
\$356mm	13.000%	SrNotes	04/01/10	B3/B-	106.50	4 /05	92.00	14.55	844	O

Balance Sheet

(US\$, millions)

	4Q99	1Q00
Cash & equivalents	189.3	916.4
Total Debt	164.7	410.0
Gross PP&E	218.0	263.3
Market Capitalization (6/12/00)	2,254	2,145

Income Statement

(US\$, millions)

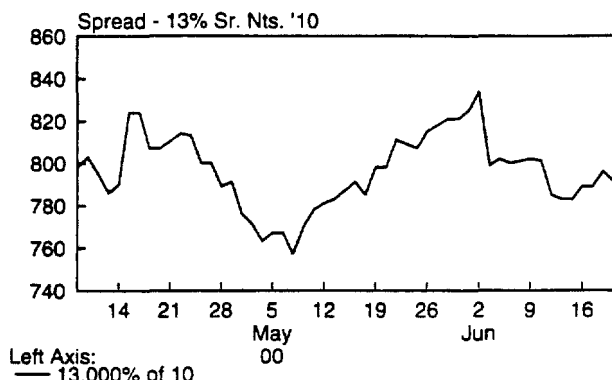
	4Q99	1Q00	2000E
Revenue	20.1	25.5	130.0
Gross Margin	7.8%	8.9%	1.9%
EBITDA	(15.8)	(20.9)	(120.7)
Capital Expenditures	48.0	45.3	385.3

Company Description

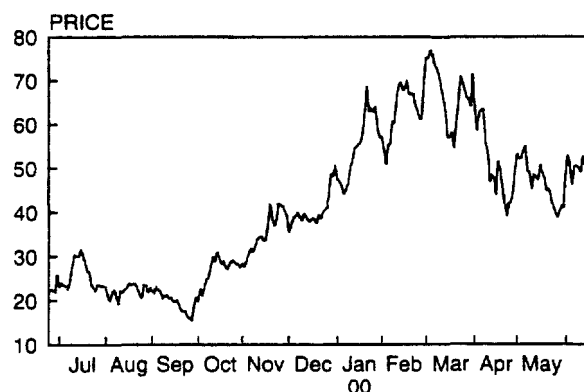
Mpower Communications began offering service in 1996 as a CLEC targeting low-end business and residential customers. The company initially provided local and long distance voice services using a smart build strategy over a circuit-switched network. In 1999, Mpower changed its strategy as a result of the Providence Equity investment, and is currently offering Internet access, voice over DSL (VoDSL), local dialtone, long distance, and other voice and data services. One holdover from the old strategy is its ability to leverage its internally developed robust back office and OSS systems. Mpower's continued strength in its back office systems is significant in light of the problems other CLECs have faced in trying to grow their businesses while coping with a lagging back office.

The company currently targets small and medium-size businesses with its bundled voice and DSL services in Southern California (Los Angeles, San Diego, Orange County), Chicago, Atlanta, Southern Florida, and Las Vegas. Management thinks it is critical to have a national footprint, and intends to increase its presence in the Northwest and East Coast corridor. As a result of that decision, the company recently announced an aggressive expansion plan for fiscal 2000 that includes expanding its network nationally. Largely in locations that are suburbs of Tier 1 markets, Mpower will have exposure to more than 35 million addressable business lines with over 800 central office collocation sites.

Spread History



Equity Closing Price



We attribute the change in Mpower's strategy to two events that took place during 1999. First, the investments from Providence Equity Partners validated Mpower's strategy, resulting in an infusion of "smart money." Providence has made investments in well-respected telecom companies such as Western Wireless, Tele1Europe, Carrier1, Verio, 360 Networks (Worldwide Fiber), Brooks Fiber, and AT&T Canada (MetroNet). Second, we view the change in the management team as a catalyst for the turnaround, and in particular, the addition of Rolla Huff and his experienced management team. With additional cash on its balance sheet and a visionary management team, Mpower is successfully re-inventing itself, and is poised to accelerate its entry into several Tier 1 markets.



Mpower Communications

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Recent Developments

- For the first quarter of 2000, Mpower reported financial results that exceeded our expectations across the board. Revenue grew 26% sequentially from \$20.1 million in the fourth quarter to \$25.5 million, beating our estimate of \$21.4 million by 19%. Mpower's Las Vegas market contributed 40% of total revenue in the first quarter, but accounted for only 16% of the net line additions, reflecting the fast-growing markets outside of Las Vegas.
- Mpower improved its gross margin from 7.8% to 8.7% in the first quarter. SG&A as a percentage of revenue increased to 91% from 86% in the fourth quarter, as the company continued its aggressive buildout.
- Mpower is making good progress with the deployment of its voice over DSL (VoDSL) product. During the quarter, 12% of its line sold and 4% of its lines installed were for VoDSL lines. In addition, 93% of the lines installed during the quarter were for business customers, including payphones. Mpower stated that its strongest VoDSL market to date has been California because PacBell has the best provisioning intervals of the RBOCs, while BellSouth is the most difficult to work with.
- In mid-April, Mpower announced that it would acquire St. Louis-based Primary Network Holdings for \$145 million. Mpower will assume \$16 million in capital leases. In addition, rather than pay for cash \$60 million of Primary Network debt outstanding, Mpower intends to swap the debt into its 13% senior notes due 2010, which will leave the company with \$310 million outstanding on the notes. Mpower will issue 1.4 million Mpower shares (regardless of share price) and swap 170,000 Primary Network options worth \$2.8 million for Mpower options. The transaction is expected to close in the third quarter of 2000.
- Primary Network (PN) currently offers data, voice, and Internet over a single high speed connection in St. Louis, Kansas City, and Springfield, MO. PN recently started deploying voice over DSL (VoDSL) to provide long distance phone services to its customers. Primary Network targets business customers, but currently provides service to residential customers as well. The company currently has 425 DSL customers. PN has 46 DSL revenue-ready central office collocations in its markets, with plans to have 84 revenue ready collocations by the end of the second quarter (100 built by that time). The addition of PN accelerates Mpower's national expansion strategy into PN's Midwestern markets by 6-7 months.
- In addition to the collocations, Mpower will gain 60 salespeople backed by a solid OSS system, in addition to a 100 person call center. Finally, a majority of PN's management team members have signed two-year agreements to remain employed by Mpower; therefore, we expect low management attrition as Mpower integrates the acquisition.
- Mpower beat our EBITDA estimate for the first quarter with (\$20.9) million versus our expectation of (\$23.4) million. We expect Mpower's EBITDA loss to expand sequentially during 2000 while the company builds its national voice over DSL (VoDSL) network. We expect Mpower to turn EBITDA

positive in the second half of 2002. Additionally, the company moved up its guidance for positive free cash flow by one year from 2004 to 2003.

Relative Value

We reiterate our Market Outperformer rating for Mpower 13% Sr. Notes trading at 95 or 13.94% YTW. Mpower ranked second in our CLEC scoring analysis and is fully funded with over \$900 million in cash on its balance sheet at March 31, 2000.

We are expecting Mpower bonds to show modest improvements over the next quarter because the company is transitioning from on-switch (UNE) access line growth to integrated access services using DSL technology. The platform transition will slow Mpower's revenue growth to single-digit sequential improvement for second quarter 2000.

We are optimistic about Mpower's ability to transition to Integrated Services over DSL because it has been successful in sales and back office functions such as provisioning and billing in the past. Furthermore, Mpower has been successful in growing its newer markets over the past few quarters.

Mpower completed the exchange of \$95 million of 13% senior notes of '04 into the 13% senior notes of '10. Management expects the remaining \$65 million of '04s will either be retired in cash compensation or be called on the first call date in October.

Credit Strengths

- Mpower exceeded our first quarter expectations on all fronts, including 26% sequential growth in revenue from \$20.1 million in the fourth quarter to \$25.5 million, beating our estimate by 19%. Mpower's EBITDA loss was (\$20.9) million versus our expectation of (\$23.4) million.
- Mpower has compelling economics with its smart build strategy using DSL technology that enables rapid, capital-efficient growth and an attractive return on invested capital. In Mpower's first full quarter of offering DSL, 12% of lines sold were DSL lines and 4% of lines installed were DSL lines. We expect the percentages of DSL lines sold and installed to continue to shift the revenue mix away from switched local lines toward higher margin bundled services over DSL.
- Mpower's strong equity sponsorship, led by Providence Equity Partners, provides comfort to bondholders who realize the significance of "smart money." Mpower's management team, led by Rolla Huff continues to demonstrate its abilities and exceed expectations.
- With the addition of Rolla Huff, former president and COO of Frontier, and other key members of management, Mpower has created a visionary management team that is successfully re-inventing the company, leaving it poised to accelerate its entry into several Tier 1 markets.
- The company is funded for its current business plan through free cash flow positive in 2003 with \$916 million of



cash on hand at March 31, 2000.

Credit Challenges

- Mpower is dependent on the ILECs for provision of its local and long distance services, including collocation and transmission facilities. First, Mpower must negotiate and renew favorable interconnection and collocation agreements with other companies. Rates charged to Mpower under the new interconnection agreements may not continue to be low enough for the company to attract a sufficient number of customers and to operate the business on a profitable basis. Mpower must also rely on the timeliness of ILECs and CLECs, which process their orders for customers switching to Mpower's service and for the maintenance of unbundled network elements to assure uninterrupted service.
- Mpower competes with the ILECs, which currently dominate their local markets. However, the ILECs do not have a DSL product that they sell to SMEs through a direct sale force in Mpower's markets. The company also faces competition in most of its markets from one or more integrated communications providers (ICPs) or CLECs. Many of its competitors have substantially greater resources with which to deploy their services. For example, AT&T and MCI WorldCom have entered the local dialtone market, and other long distance carriers have announced their intent to enter the local services market. As evidenced by the recent acquisitions by McLeodUSA of Splitrock and NEXTLINK of Concentric, consolidation is becoming common, which leads to economies of scale and large asset bases that will compete directly with Mpower for customers.
- Mpower targets customers in close proximity to its collocation sites in order to gain the most benefit from DSL technology, which is currently distance-sensitive. This may limit Mpower's potential customer base, subject the company to increased competition, and suppress future growth opportunities should DSL technology solve its distance sensitivities.

Company Outlook

We are forecasting revenue growth of 136% during 2000 to \$130 million. In 2001, when Mpower has more than 800 collocations generating revenue, we expect revenue to more than double to \$265 million. We look for the company to de-emphasize the non-DSL portion of its revenue base once it can generate higher margins from its DSL services. During the buildout phase in 2000, we expect gross margins to remain under pressure.

Once the company has completed its nationwide buildout, Mpower should start to realize gross margins nearing 60% by the year 2005. We expect the company to generate positive EBITDA in 2002 and free cash flow during 2003.

We expect Mpower to cover its interest payments 1.1x in 2002, improving to 5.6x by the end of 2004. In addition, Mpower's leverage should decrease to 1.2x in 2004.

The company believes its switch, DSL-based network

architecture represents a demand-driven approach requiring less capital deployment than the amount required for the physical buildout of a fiber optic infrastructure. As such, Mpower plans to spend \$385 million during 2000 while it undertakes the majority of its national expansion and collocation buildout. Capital expenditures are expected to be approximately \$100 million per year after 2000 as the company invests in customer premise equipment. In addition, to achieve cost efficiencies, the company can allocate transport from its collocations to its host switch sites among various vendors.

Industry Trends

The competitive local exchange carrier (CLEC) opportunity is a significant one. With less than a 5% total market penetration, CLECs are targeting under-served customers of the incumbent local exchange carriers (ILECs), which are former monopolies. The growing demand for affordable bandwidth should give CLECs an opportunity to acquire customers as long as they adhere to attractive pricing, high quality customer service, and differentiated offerings. In our view, a CLEC needs four key elements to succeed:

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Balance Sheet

(US\$ Millions)	3/31/00
Cash	191.2
Total Debt	53.0
Gross PP&E	91.2
Equity market Capitalization	568.0

Income Statement

(US\$ Millions)	1Q00A
Revenue	10.6
Gross Margin	20%
EBITDA	15.0
Capital Expenditures	22.0

Company Operating Data

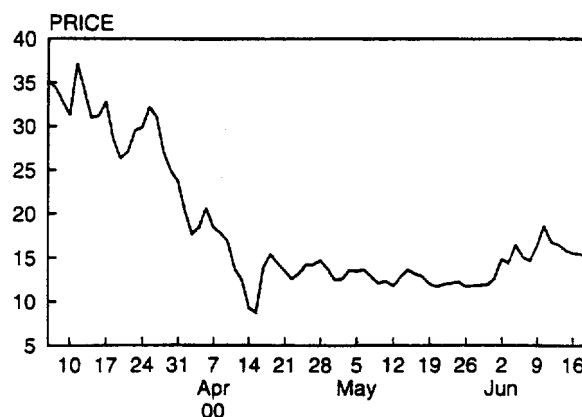
	3/31/00	12/31/99
On-net markets served	9	6
Addressable Business Lines	9.3m	6.4m
Data Switches	9	6
Voice Switches	3	3
Total Lines Installed	68,400	55,900
New Lines Installed	12,500	12,500
Total Lines Sold	92,600	76,500
New Lines Sold	16,000	16,100
Installed Lines On-Net	28%	16%
Lines per Customer	79	78

Company Description

Net2000 is a rapidly growing, facilities-based, broadband telecommunications provider that offers local, long distance, data and Internet services throughout the mid-Atlantic and northeastern United States. Net2000 targets medium to large businesses that use at least 50 access lines, require multiple, complex services, and spend more than \$50,000 annually on communication services. The company offers bundled high-speed data and voice telephony products to high-end customers over its "smart-build" network, billed on a single invoice. We believe the company's seven-year operating history, consultative direct-sales approach, and high-quality revenue stream will lead to Net2000's long-term success as an emerging integrated carrier.

Founded in 1993 and headquartered in Herndon, Virginia, Net2000 began operations as an agent, reselling local Bell Atlantic services. For four years, Net2000 was the largest producing agent out of more than 100 Bell Atlantic agents. The company left the Bell Atlantic agent program in July

Equity Closing Price



1998 to launch its own Net2000 branded service. Today, Net2000 offers local, long distance, high-speed data, frame relay, ATM, and corporate WAN services to medium- to large-sized business customers on a single bill.

Following the company's March 7, 2000, \$230-million initial public offering (11.5 million shares at \$20), Net2000 is 29% owned by the company's executive officers and directors, 10% by the Carlyle Group, 10% by Nortel Networks, 8% by Blue Water Capital, 6% by Societe General, 5% by Mid-Atlantic Ventures, 4% by PNC Capital, and 28% by the public.

Recent Developments

- On June 13, Net2000 announced a national fiber capacity agreement with Level 3 to provide Net2000 with more than 7,300 miles of OC-12 and OC-3 broadband transport capacity, which will enable Net2000 to offer integrated services across the United States. Under terms of the agreement, Level 3 will provide high capacity backbone fiber facilities for Net2000's integrated voice, data and video network build-out. The first phase of the Net2000 broadband network, already completed, extends from Washington, D.C. to Boston. Phase two, which is in progress, will include deployments in major metropolitan areas across the country, including Chicago, Dallas and San Francisco.
- Starting on June 6, 2000, Net2000 will provide free Internet service to customers who subscribe to Net2000 local service. All customers who sign up for Net2000Connect local voice service will receive free Internet service. As a key component of its suite of telecommunications services, Net2000 provides customers with a high-speed, fault tolerant, fully redundant network. Free Internet service, when combined with integrated voice and data services on one bill, is a significant benefit for customers.
- On May 2, 2000, Net2000 completed installation of switching equipment in New York City. This new equipment will enable Net2000 to provide sophisticated voice and data

06/22/2000

communications solutions to businesses in New York City and Long Island. Net2000 has installed a Nortel Networks DMS-500* and Passport* Multiservice 7440 and 7480 ATM (Asynchronous Transfer Mode) Switch. The switching facility, built-out by StructureTone, will occupy 18,000 sq. ft. in the Hudson Telecom Center. New York area customers including Bank of America Prime Brokerage Services and StructureTone will have access to voice and data services over the two switches.

- On April 25, 2000, Net2000 Communications announced financial and operating results for the first quarter ended March 31, 2000. Revenues of \$10.6 million represent a 108 percent increase over revenues of \$5.1 million in the same quarter last year and an increase of 18 percent sequentially over fourth quarter 1999 revenues of \$9.0 million.
- During the quarter ended March 31, 2000, the Company installed 12,500 access lines, 79 percent of which were on its network or "on-net". This is indicative of Net2000's shift in moving customers to its network, as only 22 percent of the 12,500 new lines added in the fourth quarter of 1999 were "on-net". The new lines brought the total number of lines installed as of the quarter-end to 68,400, of which 28 percent were "on-net". This compares to 16 percent of the Company's 55,900 total lines being "on-net" in the fourth quarter of 1999. Total lines sold increased 21 percent during the quarter to 92,600, up from 76,500 as of fourth quarter 1999.
- For the quarter ended March 31, 2000, revenues totaled \$10.6 million. Reciprocal compensation, which Net2000 recognizes only after collected, amounted to less than one percent of revenues for the quarter. Selling, general and administrative expenses (SG&A) increased to \$16.9 million in the current quarter, up from \$16.3 million in the previous quarter, representing the Company's continued network build-out and sales force expansion. EBITDA losses totaled \$14.8 million, compared to losses of \$14.1 million in the fourth quarter 1999.
- The Company expects to make further progress in delivering Net2000-branded services to its customers by disposing of 10,000 low-end, low-margin resale lines through an agreement with Access One Communications, as previously announced, during the current quarter. Excluding these resale accounts, average access lines per customer grew to 79, and the monthly average revenue per customer stood at \$5,200 as of March 31, 2000. This compares to an average of 78 lines per customer and monthly revenue of \$5,000 as of December 31, 1999.
- In April, 2000, Net2000 syndicated a \$200 million loan. The company plans to use the proceeds of the loan to help build out its network in the mid-Atlantic and northeastern United States. The credit facility consists of a \$100 million revolving credit facility and a \$100 million delayed draw term loan.

Company Outlook

Net2000 provides telecom services to nine markets today in the Northeast corridor, and intends to offer services to 27 markets nationwide over the next 24 months. To do this, the

company is pursuing a three-phase national expansion strategy. All three phases of this buildout plan should be completed by late 2002. Current markets: Baltimore, Boston, New York, Norfolk, Newark, Providence, Richmond, Washington DC,

Net2000 provides telecom services to nine markets today in the Northeast corridor, and intends to offer services to 27 markets nationwide over the next 24 months. To do this, the company is pursuing a three-phase national expansion strategy. Building on its current footprint, Net2000 plans to develop a core foundation in the Mid-Atlantic and Northeast regions during Phase I and then to follow its enterprise customer traffic into select cities across the nation, installing voice and data switches as traffic warrants in Phases II and III.

Net2000 is building its network based on the following strategy:

Net2000's smart-build strategy requires limited collocation, as the company focuses on serving customers with dedicated lines and not unbundled network elements. When entering a market, Net2000 leads first with lower-cost data switches and then back-fills with voice switches as customer traffic grows. Initially under this strategy, Net2000 purchases and deploys data switches and leases fiber to the customer. As demand increases, the company then adds voice switches and purchases fiber capacity where economically efficient to do so. This approach is consistent with the company's sales efforts to sell data services first and then upsell additional products. Although Net2000 mainly provides T-1 level service, the company enhances margins with DSL technology by leveraging agreements with Rhythms NetConnections and Network Access Solutions.

PHASE I Target Completion Mid-2000:

Net2000 plans to leverage its reputation and exploit existing relationships to capture high volume traffic from Boston to Washington, DC by deploying 13 data switches and 5 voice switches in Phase I. Phase I Markets: Frederick, Philadelphia, Williamsburg, Roanoke

PHASE II Target Completion Yearend 2000:

Net2000 will use Phase II to deploy a national ATM backbone with 10 additional data switches and two voice switches. Phase II markets were selected to be geographically dispersed, tier-I cities that provide optimal locations for originating and terminating network traffic and are connected by the company's existing fiber routes. The company expects to complete Phase II by year-end 2000. Phase II Markets: Atlanta, Charlotte, Chicago, Dallas/Ft. Worth, Denver, Los Angeles, Pittsburgh, San Jose, Salt Lake City, Wilmington

PHASE III Target Completion Late 2002:

In Phase III, Net2000 will continue to expand its geographic coverage as well as return to cities where the company provides voice and/or data services to upgrade existing data facilities to support Internet protocol-based switches for both

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voice and data services. Net2000 expects to complete this phase by late 2002. Phase III Markets: Houston, Miami, San Francisco, Seattle





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Company Description

NetRail delivers "Universal Networking" solutions over its Tier One IP broadband network to CLECs, ISPs, ASPs, NSPs and other emerging next-generation service providers. Universal Networking is the ability to communicate any type of content, using any device, from one point to another. NetRail is introducing value-added, last-mile solutions including a multi-vendor, national DSL footprint.

NetRail plans to build WAP enabled uplink servers into its backbone, providing partners with the capability of delivering content to wireless devices. NetRail's network is a carrier-class Tier-One IP network consisting of OC-12, OC-3, and DS-3 backbone trunks with OC-48 capacity by the end of 2000. As a redundant and load balanced network, NetRail has more than 20,000 route miles of fiber-optic cable with over 50 POPs in the U.S. Powering the NetRail network are Juniper M-40 IP backbone routers and Lucent CBX-500 intelligent ATM switches.

NetRail's services include: collocation, DSL, IP transit, and wireless Web.

NetRail's Mobile Extreme is the first wholesale, turnkey solution for CDMA wireless Web access.



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Balance Sheet

(US\$, millions)

	3/31/00	12/31/99
Cash & investments	160.7	42.8
Long term obligations	21.3	17.7
Mandatorily Redeemable Preferred Stock	150.5	0.0
Stockholder's Equity	47.1	68.0
Market Capitalization (6/20/00)	~ 507.8	

Income Statement

(US\$, millions)

	1Q00	4Q99
Revenue	6.4	4.8
EBITDA	(16.5)	(1.8)
Net Loss	(22.3)	(2.5)

Company Operating Data

	1Q00	4Q99
Central Office Collocations	477	362
Installed Lines	4,888	2,910
Average Revenue per Employee	\$168	\$175
Sales Employees	169	133
Customers	1,932	1,492
Lines per Business Customer	3.6	3.3

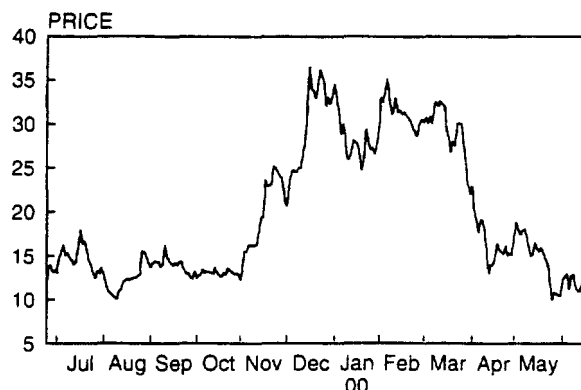
Company Description

Network Access Solutions (NAS) is a regional data CLEC that focuses on the data communications needs of business customers, historically through the sales of products and equipment and provision of consulting services and more recently through the provisioning of network services using DSL technology. Through its branded CuNet (pronounced "CopperNet") service, NAS offers customers high-speed, "always on" local, metropolitan and wide area connecting services using DSL technology. NAS is focused on large customer base (500 lines or above).

As a complement to CuNet, NASC offers customers a complete suite of enterprise networking solutions, including network integration, network management, network security and professional services. CuNet is currently available in Baltimore, MD; Boston, MA; New York, NY; Philadelphia, PA; Washington, D.C.; Norfolk, VA; Philadelphia, PA; Pittsburgh, PA; Richmond, VA and Wilmington, DE. Finally, SBC and Telmex are current investors

NAS intends to expand its footprint into the following 20 markets: Atlanta, Charlotte, Denver, Greensboro,

Equity Closing Price



Jacksonville, Louisville, Memphis, Miami, Minneapolis, Nashville, New Orleans, Orlando, Phoenix, Portland, Raleigh-Durham, Salt Lake City, Seattle, Tampa, Tucson, and West Palm Beach. The company is also starting to roll-out VoDSL.

As of March 31, 2000, the Company had installed its equipment in 477 central offices within its northeast and mid-Atlantic markets, and the company expects to have installed its equipment in approximately 500 central offices by mid-2000.

As of December 31, 1999, the Company had more than 1,492 customers. AT&T accounted for 50.4% and 30.7%, and AstraZeneca PLC accounted for 8.0% and 9.2%, of its revenue for the years ended December 31, 1998 and 1999, respectively.

Recent Developments

- On June 14, 2000, Network Access Solutions announced that it has completed Phase II of its mid-Atlantic DSL network build-out ahead of schedule. Now, the Company operates a unique, ATM-based network of 500 CO's giving 95% of mid-Atlantic-based businesses access to one of the most advanced broadband networks in the nation.
- On May 4, 2000, the Company announced its 1Q results, which in the first quarter increased 33% year-over-year to \$6.4 million compared to \$4.8 million in the year-ago quarter. Network Services revenue, which now represents approximately 26% of the company's total revenue, contributed \$1.7 million to revenue this quarter compared to \$119,000 in the year-ago quarter. This represents a 1400% year-over-year increase and a 61% increase quarter-to-quarter.
- Lines installed as of March 31, 2000, increased to 4,888 compared to 2,910 at December 31, 1999. The Company also completed its expansion into 115 new central offices and now operates a total of 477 central office locations.
- On March 7, 2000, the Company issued 1,500,000 shares



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of Series B preferred stock to SBC and Telmex. Each share of Series B preferred stock is convertible at any time into 3.2258 shares of NAS common stock, or a total of 4,838,700 common shares.

- On February 8, 2000, NAS announced strategic financing agreements with SBC and Telmex in which those companies agreed to purchase a total of \$150 million, \$75 million each, of its Series B preferred stock for \$100 per share.



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Company Description

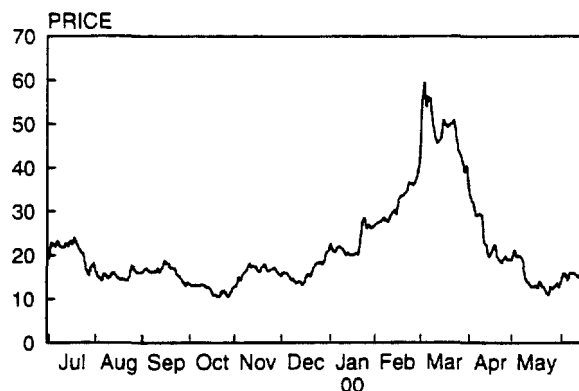
Founded in 1990, Network Plus is a network-based communications provider offering broadband data and telecommunications services, primarily to small and medium-sized business customers located in major markets in the northeastern and southeastern regions of the U.S. The company's bundled product offerings include local and long distance services as well as enhanced, high speed data and Internet services, primarily using DSL and VoDSL. Network Plus has a large and established customer base, with over 45,000 customers representing in excess of 225,000 long distance lines, 66,000 local lines, and over 300 DSL lines.

Network Plus follows a "targeted smart build" strategy in that it builds collocations in its target markets where customers already exist and when it is economically feasible. Currently, the company has 197 collocations. Network Plus has a 279-person direct sales force has a proven track record for selling telephone services.

Network Plus' superior back office system (Logos) enables the company to seamlessly integrate customer service, provisioning, monitoring and billing

\$147 million IPO priced June 29, 1999, via Goldman Sachs as lead manager. On April 6, 2000, the company issued \$145 million of common stock and \$125 million of convertible preferred stock. The company received a commitment from Goldman Sachs Credit Partners for a \$225 million credit facility.

Equity Closing Price







06/22/2000

Company Description

New Edge Networks is a wholesale broadband services provider in small, midsize, and semi-rural markets. New Edge initiated service at its first location in Vancouver in December 1999, and rolled out service in 330 more locations over the course of the next five months. New Edge's DSL technology uses existing copper phone wires in homes and businesses to enable access to the Internet and corporate LANs at speeds up to 100 times faster than through analog modems. The company's DSL technology also offers continuous "on demand" connectivity eliminating dial up or waiting; secure access using dedicated facilities; and reliable network monitoring around the clock.

Founded in June 1999, the company began providing high-speed Internet access last December and is currently authorized to serve in 46 states. Remaining state approvals are expected soon. New Edge Networks has negotiated interconnection agreements with all the major incumbent local telephone companies and filed for space in 1,200 telephone company central office locations. New Edge Networks is building partnerships with ISPs and CLECs around the country, bringing broadband to customers who have been overlooked by most access providers.

New Edge's partners include:

Covad Communications: New Edge Networks and Covad Communications announced a reciprocal services agreement this year, expanding the reach of each company's footprint across the country. New Edge will provide its wholesale customers access to Covad's nationwide network. In turn, Covad will offer its Internet and other service provider partners expanded DSL coverage in small, midsize, and semi-rural markets.

Northpoint Communications: New Edge Networks and NorthPoint Communications announced a strategic reciprocal services agreement last fall, expanding the number of homes and businesses each company is able to service with DSL technology, and enabling both companies to expand their respective DSL footprints by utilizing each other's network.

Efficient Networks: New Edge selected Efficient Networks, a leading Digital Subscriber Line (DSL) Customer Premise Equipment (CPE) provider. Efficient Networks will offer New Edge customers the full line of Efficient SpeedStream DSL CPE products. These products deliver multi-megabit per second Internet access over standard copper telephone lines in homes and businesses throughout the company's national service area.

Other partnerships: New Edge Networks has also formed agreements with other communications service providers, including CoolCAS, ibeam, Rhythms NetConnections, Newbridge Networks Corp, and U S WEST.

Top-tier private venture firms, global financial institutions, and worldwide technology firms are backing New Edge Networks. These include Accel Partners, Comdisco Ventures, Crosspoint Venture Partners, Goldman, Sachs & Co.,

Greylock, Intel Corporation, Meritech Capital Partners, and Morgan Stanley Dean Witter.

New Edge has received financial backing from the following sponsors, which include private venture firms, global financial institutions, and worldwide technology firms:

Accel Partners, Greylock, Comdisco Ventures, Intel Corporation, Crosspoint Venture Partners, Meritech Capital Partners, Goldman Sachs & Co., Morgan Stanley Dean Witter, Newbridge Networks.



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Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$636mm	0/9.450%	SrDisc	04/15/08	B2/B	104.72	4 /03	62.00	12.82	655	O
\$335mm	9.000%	SrNotes	03/15/08	B2/B	104.50	3 /03	91.00	10.74	446	MP
\$400mm	9.625%	SrNotes	10/01/07	B2/B	104.81	10/02	94.00	10.83	452	MP
\$500mm	10.750%	SrNotes	11/15/08	B3/B	103.58	11/04	98.50	11.02	481	MP
\$675mm	10.750%	SrNotes	06/01/09	B2/B	105.38	6 /04	98.50	11.02	484	MP
\$589mm	12.250%	SrDisc	05/01/09	B3/B	106.12	6 /04	60.50	11.55	550	O
\$350mm	12.500%	SrNotes	04/15/06	B2/B	106.25	4 /01	104.00	11.17	476	O

Balance Sheet

(US\$, millions)

	4Q99	1Q00
Cash & equivalents	1,923.0	3,049.0
Revolver		375
12.5% Sr. Nts.	350	350
9.625% Sr. Nts.	400	400
9.0% Sr. Nts.	334	334
9.45% Sr. Nts.	470	481
10.75% Sr. Nts. '08	500	500
10.75% Sr. Nts. '09	675	675
12.25% Sr. Disc. Nts.	348	359
12.125% Sr. Disc. Nts.	255	263
10.5% Sr. Nts.	400	400
Capital Leases, other	16	16
Total Debt	3,749	4,153
Gross PP&E	1,323	1,517

Income Statement

(US\$, millions)

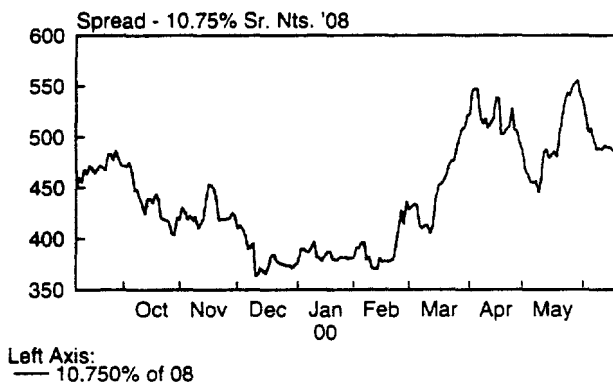
	4Q99	1Q00	2000E
Total Revenue	90.0	105.8	705.3
Gross margin	27.5%	28.1%	27.7%
EBITDA	(59.4)	(63.2)	(323.5)
Capital Expenditures	226.0	195.0	1,751.0

Company Description

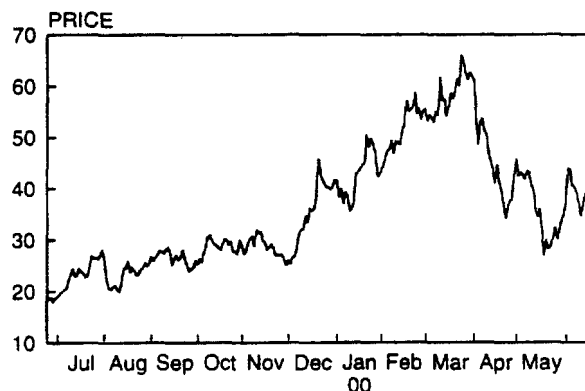
NEXTLINK Communications is a facilities-based competitive local exchange carrier (CLEC) currently operating in 47 markets across the United States, with plans for further expansion.

Founded in 1994, NEXTLINK began installing local fiber backbones in its targeted markets and concentrated on the delivery of voice services to customers. In early 1999, NEXTLINK began rolling out its data strategy and focusing on bandwidth delivery for customers. In its local markets, NEXTLINK is focused on the delivery of bandwidth to customers using three different broadband technologies — broadband wireless, fiber, and digital subscriber line (DSL) electronics. NEXTLINK's strategy allows it to remain flexible in addressing each customer's bandwidth needs. To support

Spread History



Equity Closing Price



this strategy, NEXTLINK has developed its integrated access DSL strategy and amassed one of the largest holdings of broadband wireless spectrum to support this multi-technology access strategy. Additionally, NEXTLINK purchased a 16,000 mile multi-fiber, intercity backbone from Level 3, allowing it to provide end-to-end bandwidth service in the future.

The company has a top-tier management team starting with its founder, an industry veteran, Craig McCaw. The team includes CEO Dan Akerson, Vice Chairman Wayne Perry, and CFO William Hoglund. Furthermore, NEXTLINK has



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enjoyed consistent access to the capital markets and currently has more than \$3 billion in cash, which is substantially more than the cash balance of most CLECs experiencing EBITDA losses.

Recent Developments

- NEXTLINK announced on May 24, 2000, that it would acquire \$306 million worth of European fiber assets from Level 3. The purchase includes 250 metropolitan route miles and 3,700 inter-city long haul route miles that include redundant undersea routes between England and Belgium and dry Eurotunnel links between England and France. NEXTLINK will receive 2.5 Gbps (STM-16 capacity) of transatlantic fiber capacity between New York and London that will be expanded to 10 Gbps (STM-64 capacity) at the end of 2002. Concentric currently has 750 Mbps of transatlantic capacity, which will give the combined entity 3.25 Gbps of transatlantic capacity.
- Similar to the INTERNEXT agreement in the U.S. between NEXTLINK and Level 3, NEXTLINK will receive one empty conduit on the inter-city network. In addition, NEXTLINK will receive empty fiber conduits on the metropolitan fiber networks in London, Frankfurt, Amsterdam, and Brussels, and extra fibers in Paris.
- The pan-European network will connect 21 major European cities. Both the pan-European fiber and the metropolitan fiber networks are expected to be delivered in late 2000 and be ready for commercial service in early 2001.
- The fiber purchase complements the European assets that NEXTLINK will acquire with the Concentric acquisition. Currently, Concentric has one of the largest ISPs in the U.K. and peering relationships with most of the Tier 1 European ISPs. In addition, it operates two data centers in the U.K., one in Amsterdam, and plans to build one in Paris. Once the fiber purchase and Concentric acquisition are complete, NEXTLINK intends to operate as a facilities-based applications infrastructure provider (AIP) serving other ISPs and ASPs across Europe.
- In addition to the fiber purchase, NEXTLINK announced that it will receive an additional \$400 million from Forstmann Little on top of the \$850 million already invested in the company. The investment will be in the form of convertible preferred shares. The shares are convertible at \$63.25 and have a 3.75% fixed dividend.
- On April 17, 2000, NEXTLINK launched new voice and data product offerings. Through a private label agreement with Concentric, NEXTLINK will provide DSL, dedicated and shared Web hosting, and e-commerce services in most of its markets. In addition, NEXTLINK will offer its customers integrated access services by bundling local, long distance, and Internet services over the same T-1 lines. Finally, NEXTLINK introduced a new calling card product that can be used on a global basis, a national long distance plan, and conference calling capabilities. The company intends to sell the new services through its existing 610 person sales force, plus 60 data specialists.

Relative Value

NEXTLINK bonds are trading at a historically wide spread.

With top-rated management and equity sponsorship NEXTLINK consistently meets or exceeds our estimates. We forecast the company to exit 2000 with annualized revenue over \$1 billion.

NEXTLINK has over \$3 billion in cash and recently announced that Forstmann Little will invest another \$400 million into the company.

NEXTLINK recently announced a significant expansion of its business plan to include data services via its Concentric acquisition and the roll-out of fiber-based services in Europe.

While NEXTLINK rated in the middle of the pack in our First Quarter CLEC analysis, we think its bonds should trade tighter than most other CLECs due to its top-rated sponsorship, its management, and the size of its future addressable market.

Credit Strengths

- Operationally, NEXTLINK has consistently met expectations, and it continues to grow its business at one of the fastest rates in the industry. In recent weeks, the company has expanded its addressable market by purchasing fiber in Europe, a move that creates the opportunity to drive additional growth. To finance its European expansion, NEXTLINK raised \$400 million in private equity from Forstmann Little. We think the European expansion and private equity investment are major positives for NEXTLINK bondholders.
- NEXTLINK's management team is recognized as one of the best in the CLEC industry. Most of NEXTLINK's senior leaders have participated in building a startup telecommunications company from inception to cash flow.
- NEXTLINK has experienced consistent access to the equity and debt markets, giving the company complete flexibility to aggressively roll out its network operations.
- NEXTLINK owns the most broadband wireless spectrum of any company in the United States. With broadband wireless technology, NEXTLINK can deploy OC-3 level bandwidth to buildings rapidly without digging up streets to install fiber. With its spectrum, NEXTLINK has all of the necessary resources (DSL, wireless, and fiber) to provide its customers bandwidth.

Credit Challenges

- With debt and preferred totaling \$5.6 billion, NEXTLINK is one of the most leveraged CLECs that we follow.
- NEXTLINK has one of the most aggressive buildout strategies of all the CLECs, with plans to spend over \$1.75 billion on capital expenditures in 2000 and \$2.16 billion in 2001.
- We forecast NEXTLINK to become EBITDA positive around



the end of 2001 or early 2002, which is later than most of the CLECs that we follow.

Industry Trends

The competitive local exchange carrier (CLEC) opportunity is a significant one. With less than a 5% total market penetration, CLECs are targeting under-served customers of the incumbent local exchange carriers (ILECs), which are former monopolies. The growing demand for affordable bandwidth should give CLECs an opportunity to acquire customers as long as they adhere to attractive pricing, high quality customer service, and differentiated offerings. In our view, a CLEC needs four key elements to succeed:

- 1) Management and sponsorship
- 2) Access to capital
- 3) Successful execution of the stated business plan
- 4) The maintenance of a consistent strategy with investors

We follow 13 CLECs in the high yield market. Because most of these companies are still in the build-out mode and currently operating with negative cash flow (EBITDA), we carefully track the trends in revenue growth and margin improvement. In 2000, we expect most of the CLECs we rate Market Outperformer to achieve double-digit sequential revenue growth each quarter — especially in local telecommunications and data services. We also look for several carriers to improve their gross margins and SG&A expense controls. Most of the carriers that we rate Market Performer have fallen behind in hitting their revenue growth targets and/or failed to improve their margins. Because the high yield market is currently difficult for most CLECs to access, we are concerned with the liquidity outlook for some of the carriers that have fallen behind.

In the first quarter, the CLECs in our comparison group increased revenues sequentially by over 12%, collectively reaching \$1.3 billion. EBITDA losses for the group were \$(162.5) million, including five companies generating positive EBITDA. Gross property, plant, and equipment for the group totaled \$13.26 billion, and the group has \$18.7 billion in total debt and \$5.2 billion in redeemable preferred. The group's enterprise value is now \$66.8 billion, which is a 60% increase over its total when we published our book for the 1999 Goldman Sachs Leverage Finance Conference in October of 1999. The total installed lines of the group grew 20% sequentially to 4,809,115 lines. All of the CLEC lines pale in comparison to the five Regional Bell Operating Companies (RBOCs) and GTE, which have over 160,000,000 installed lines. There is plenty of market opportunity. The CLECs also continue to make significant progress in moving lines onto their networks or switches via unbundled network elements (UNEs), which should contribute to improving gross margins in the future.

The group remains reasonably funded, with total cash at the end of the first quarter of \$10.7 billion. We are concerned about the liquidity of a few CLECs in our group, such as

Adelphia Business Solutions, CapRock Communications, and KMC Telecom. Over the past 18 months, more than \$9.5 billion in private equity has funded various CLECs through their capital shortfalls, and some carriers have turned to the bank market. Given the current state of the high yield market, we think CLECs will continue to look to those sources for capital.



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NorthPoint Communications

NPNT

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David Corleto (212) 357-2723

06/22/2000

Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$400mm	12.875%	SrNotes	02/15/10	Caa1/CCC	102.15	2 /07	79.00	17.44	1133	O

Balance Sheet

(US\$, millions)

	4Q99	1Q00
Cash & equivalents	210	412
Total Debt	115	515
Gross PP&E	244	339
Equity Market Capitalization	3,822	1,600

Income Statement

(US\$, millions)

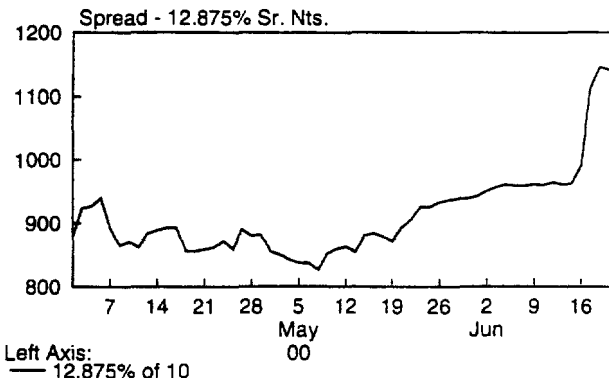
	4Q99	1Q00	2000E
Revenue	11.6	20.0	122.3
Gross Margin	-116%	-68%	-27%
EBITDA	(58.9)	(62.0)	(269.4)
Capital Expenditures	95.0	95.0	265.0

Company Description

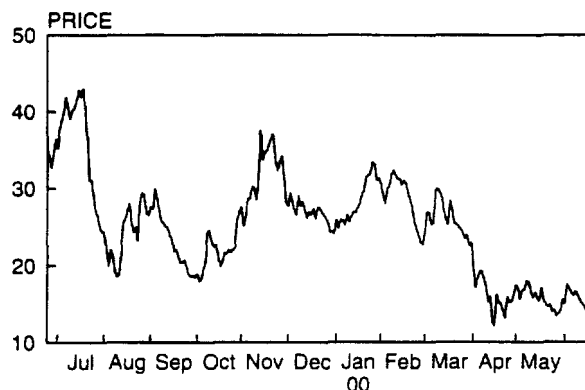
NorthPoint was founded in May 1997 by six former MFS/WorldCom executives, who developed and implemented the first commercial DSL service for WorldCom. NorthPoint began commercial operations in March 1998. The company's founders recognized that the biggest obstacle in the development of broadband communications was the limited physical medium for carrying the local portion of a phone call, copper wire. With digital subscriber line technology (DSL), an existing copper wire can transmit greater amounts of bandwidth (up to 24x the bandwidth needed for a voice phone call) over the connection between the telecommunications switch and customer premise. DSL accomplishes this by digitally encoding the signal. Prior to the development of DSL technology, phone companies had to manually hang repeaters every 3,000-5,000 feet along copper wire routes to deliver the same amount of bandwidth — a cost, labor, and time-intensive procedure.

NorthPoint is a national, facilities-based CLEC that provides high speed, local data network services primarily using DSL technology. The company employs a wholesale strategy, marketing its services to ISPs, ILECs, CLECs, and other data service providers who resell the services to their end-users. NorthPoint uses DSL equipment to transmit high-speed data over copper lines between central offices and end users. For a DSL connection, equipment must be installed at both the end user premise and the local central office. At the end user premise, a DSL modem is connected to the phone line

NorthPoint Communications



Equity Closing Price



and a PC. At the central office, the phone line is terminated into a DSLAM (digital subscriber line add/drop multiplexer). To offer broadband DSL services throughout a market, NorthPoint leases "collocation" space in targeted local central offices and installs DSLAMs in these spaces. A NorthPoint DSL line is a dedicated, "always on" Internet connection. NorthPoint's equipment in each central office is connected to metropolitan nodes where NorthPoint is interconnected to its ISP customers, typically with high speed fiber optic transmission lines. As of March 31, 2000, NorthPoint operated 41,300 DSL lines and had completed collocations in 1,260 ILEC central offices within 37 markets across the country.

**Recent Developments**

- On June 6, 2000, NorthPoint announced that it had secured operational line-sharing agreements with every major ILEC across the country. Line sharing allows NorthPoint to offer DSL-based broadband communications solutions to the consumer/residential market at much lower costs, thereby opening up a large market opportunity. Line sharing allows competitive carriers to offer end users DSL services over the same line that the incumbent currently uses to provide voice services to that end user. Prior to line sharing, competitive carriers were forced to provision a separate line. The use of the same line significantly lowers costs for the competitors.
 - NorthPoint announced on May 8 the development of a strategic alliance with Cisco Systems to accelerate the development of broadband services and the deployment of affordable, high speed Internet access to consumers and businesses nationwide. As part of the alliance, NorthPoint will deploy Cisco's DSL networking platform, which allows NorthPoint to expand its service portfolio, enhance its content delivery platform, and quickly add network capacity when necessary.
 - On March 8, Northpoint announced plans to create the first pan-European DSL provider as part of a 50/50 joint venture with Versatel, a facilities-based European CLEC focused on the Benelux and German markets. The new venture, to be called VersaPoint, will be led by Michael Malaga, who is assuming the role of CEO of VersaPoint while retaining his title as chairman of NorthPoint. VersaPoint will operate under a wholesale DSL model similar to NorthPoint's model in the U.S. Northpoint and Versatel will contribute \$50 million each to fund VersaPoint's initial operations and capital expenditures, after which the company should be able to access the capital markets and become self-financing.
 - On February 16, NorthPoint announced its first international joint venture as part of a deal to provide DSL services in Canada with Call-Net. The JV will combine NorthPoint's DSL provisioning experience with Call-Net's Canadian network and customer base. It will use a wholesale distribution model similar to NorthPoint's U.S. model. Call-Net and NorthPoint are each investing \$50 million to fund the JV's initial capital requirements. Beyond the initial investment, the JV should be self-financing, with plans to access the capital markets in some capacity in the future. Both companies plan to contribute personnel to create a management team to run the JV, which will retain the NorthPoint brand name. NorthPoint and Call-Net expect the JV's network to access 70% of the Canadian business market upon completion of the buildout, which should take 18 months. Commercial service is expected to be launched in third quarter 2000.
- million in 1999 to \$6.5 billion in 2003, a 119% CAGR.
- The customer value proposition is significant. The DSL companies are delivering broadband services a approximately 12x the speed of a 56k modem, which is what customers are currently using. The rapid growth being experienced by the three DSL carriers is evidence that customers value the service.
 - NorthPoint's relationship with Microsoft and Tandy establishes the company as the preferred provider of DSL services for both the MSN network and Radio Shack stores. With the implementation of lower-cost line sharing NorthPoint is positioned to take advantage of the large residential and consumer Internet access market.
 - During the first quarter of 2000, NorthPoint completed the implementation of its new back-office billing and provisioning system, OSS 2000. The new system virtually eliminates manual interventions in the line-ordering process, which should reduce order processing intervals by as much as 30% while increasing order capacity by over 400%.

Credit Challenges

- Liquidity - NorthPoint ended the first quarter of 2000 with \$412 million of cash on its balance sheet. According to management, the company is funded through the first quarter of 2001.
- Line provisioning - NorthPoint's DSL services are contingent upon leasing copper loops from the incumbent phone company. As a result, it is imperative that NorthPoint develop systems to provision lines as quickly and efficiently as possible. Provisioning issues could lead to slow line growth and revenue generation.

Credit Strengths

- NorthPoint offers its DSL services in a high-demand yet supply-constrained market. According to Goldman Sachs Equity Research, the DSL sector should grow from \$284



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Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$285mm	0/13.250%	SrDisc	09/30/04	B3/B-	105.34	9 /00	105.25	11.25	481	MP
\$277mm	0/12.750%	SrNotes	04/15/05	B3/B-	101.82	4 /01	102.50	11.15	466	MP
\$530mm	0/11.750%	SrDisc	12/15/05	B3/B-	104.41	12/00	95.00	11.67	524	MP
\$1,050mm	0/11.500%	SrNotes	02/01/06	B3/B-	105.75	2 /01	92.50	11.76	544	MP
\$517mm	0/11.200%	Debs	11/15/07	B2/B-	104.20	11/00	94.00	11.59	528	MP
ST300mm	0/10.750%	SrDisc	04/01/08	B3/B-	105.32	04/03	61.00	13.99	859	MP
\$1,300mm	0/9.750%	SrNotes	04/01/08	B3/B-	104.88	4 /03	63.00	12.84	657	MP
\$450mm	0/12.375%	SrNotes	10/01/08	B3/B-	106.19	10/03	64.25	13.12	690	MP
ST330mm	0/9.750%	SrNotes	04/15/09	B3/B-	104.88	04/04	52.00	13.70	840	MP
EUR210mm	0/11.500%	SrDisc	11/15/09	B3/B-	105.75	11/04	54.50	12.99	781	MP
\$110mm	9.125%	CoGuar	02/01/08	B3/B-	104.56	02/03	92.00	10.69	449	MP
EUR250mm	9.250%	SrNotes	11/15/06	B3/B-	NC	NC	90.00	11.50	639	MP
ST123mm	9.500%	SrNotes	04/01/08	B3/B-	104.75	04/03	90.00	11.47	607	MP
EUR350mm	9.875%	SrNotes	11/15/09	B3/B-	104.94	11/04	89.50	11.75	656	MP
\$400mm	10.000%	SrNotes	02/15/07	B3/B-	105.00	2 /02	94.00	11.30	496	MP
ST131mm	10.000%	CoGuar	02/01/08	B3/B-	105.00	02/03	92.00	11.61	619	MP
\$420mm	10.750%	SrDisc	02/15/07	B3/B-	105.38	02/02	77.00	12.38	604	MP
\$624mm	11.500%	SrNotes	10/01/08	B3/B-	103.83	10/04	100.75	11.32	499	MP

Balance Sheet

	Q1:00	2000 E	2001E
Bank Debt & Other	1,662.9	4,888.0	4,888.0
Sr. Sub Debt	7,057.0	7,384.3	7,668.0
Convertible Notes	1,799.3	1,200.0	1,200.0
Total Debt	10,519.2	13,472.2	13,756.0
Redeem Exch Pref	1,997.6	1,997.6	1,997.6
Total Debt +Pref.	12,516.8	15,469.8	15,753.6
Cash & Equivalents	2,160.7	3,296.0	1,790.8
Marketable Securities	229.9	229.9	229.9
Total Debt/EBITDA	38.3x	22.9x	12.4x
Total Debt+Pref/EBITDA	45.5x	26.3x	14.2x

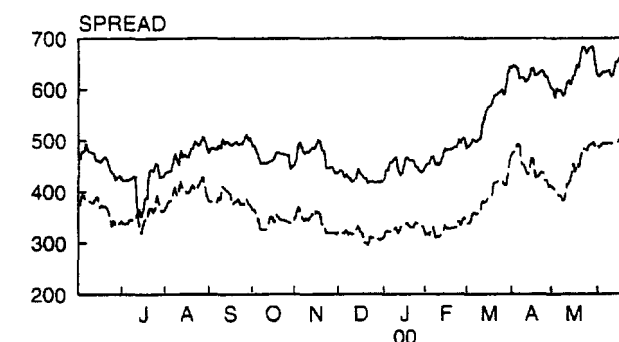
Company Operating Data (Cont'd)

CATV Subscribers	1,962	3,847	4,082
Penetration Rate	53.2%	40.1%	40.9%
Res Tel Subscribers	2,195	2,435	2,667
Penetration Rate	39.8%	32.6%	32.7%
Total RGUs.	4,209	6,282	6,749

Income Statement

	Q1:00	2000E	2001E
Total Revenues	490.9	3,032.5	4,472.7
EBITDA	58.6	587.8	1,110.9
% Margin	11.9%	18.4%	24.8%
Capex	359.2	1,759.2	1,800.0
Cash Interest	93.0	639.8	816.1
EBITDA/Cash Interest	0.7x	0.9x	1.4x

Spread History



Left Axis:
 — 0/9.750% of 08
 - - 10.000% of 07

Company Operating Data

	Q1:00 (as reported)	2000E (Inc. CWC)	2001E
Homes Passed	6,046	10,517	10,869
Homes Marketed (CATV)	5,516	9,586	9,981
% of Homes Passed	91.2%	91.1%	91.8%
Total Subscribers	3,236	4,531	4,772
Penetration rate	58.7%	47.3%	47.8%



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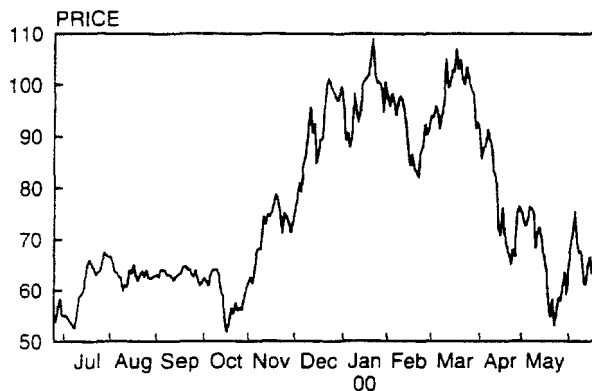
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Equity Closing Price



Company Description

NTL Incorporated is the largest telecommunications and cable television operator in the United Kingdom. The company provides residential telephone, cable television, Internet, and business telecommunications services to its customers. NTL's franchises extend nationwide and with the recently completed CWC ConsumerCo acquisition, the company has the leading presence in Greater London. Pro forma for acquisitions, at the end of March 2000, NTL passed 6 million homes and had 3.2 million customers. In the past year, NTL has expanded its footprint to continental Europe with acquisitions in France and Switzerland.

Recent Developments

- On June 20, 2000, NTL announced a joint venture with the Football League to set up an Internet portal for the Football Clubs that wish to participate. NTL will pay up to £65 million in fees for the rights over five years.
- On June 14, 2000, NTL announced that it had won the pay-per-view rights for the U.K.'s Premier League soccer games for £109 million per year (£120 per year including marketing and production costs). This translates into a cost of £3 million per game for the PPV right for 40 live games. The license will enable NTL to offer one premier soccer league game on its PPV channel every week for three years, beginning with the 2001-2002 soccer season. Management stated that 7.5% of the fee will be paid up-front as a deposit and the remaining payments will be spread evenly over the life of the contract.
- On May 30, 2000, NTL completed the acquisition of CWC ConsumerCo. In conjunction with the acquisition NTL completed the sale of \$4.5 billion of common and preferred stock to France Telecom to fund the cash portion of the purchase price. The company also completed two bank facilities to refinance acquired debt and fund working capital needs.
- On March 28, 2000, NTL completed the acquisition of Cablecom Group for CHF 5.8 billion (\$3.5 billion). The

transaction was financed with a new bank facility of CHF 2.7 billion (\$1.6 billion) and by using the proceeds of \$1.85 billion of preferred stock issued to France Telecom. The acquisition was announced in December 1999, and valued at \$3.7 billion. Cablecom has 1.4 million cable subscribers and a total of 140,000 ISP customers. With a 53% market share, Cablecom is the leading cable operator in Switzerland, with total revenues of \$388 million and EBITDA of \$145 million in 1998. NTL is paying approximately \$2100 per subscriber, or 22x 1999 cable EBITDA. The network is high quality, with 75% upgraded to 606 MHz by year-end, and the company plans to upgrade the entire network to 860 MHz over the next four years. Capex over this period is expected to be \$400-800 million. NTL has secured debt financing at the subsidiary level for \$2.3 billion of the purchase price and has completed a \$1.2 billion convertible offering that will make up most of the balance.

- In March 2000, NTL entered into a new credit facility of \$1.6 billion with the acquisition of Cablecom, at an interest rate of LIBOR+2.5% per annum.

Relative Value

NTL is one of the benchmark names in the high yield market, with over \$6 billion of public debt outstanding. Pro forma for the CWC ConsumerCo acquisition, we expect the company's bonds to be upgraded to a high single-B and a weak double-B on a senior secured basis. NTL will continue to be an active issuer in the high yield market, as its originally issued zero coupon paper turns cash pay and becomes callable; it will also need to meet acquisition and capital expenditure requirements. As refinancing takes place, we expect the company to continue to tap the sterling and euro high yield markets opportunistically, reducing its foreign currency exposure. We reiterate our Market Performer rating on the company and recommend the bonds as a core holding.

Credit Strengths

- Largest U.K. broadband operator, representing two-thirds of franchised homes in the country. This position provides the company with significant scale to better leverage programming suppliers and gain higher margins from increased on-net telecommunications traffic. NTL is currently one of the top three broadband operators in Europe and one of the top 10 in the world.
- Strong competitive position with the ability to compete effectively on a nationwide basis with BskyB and British Telecom. NTL has recently launched a nationwide advertising/branding campaign as part of an effort to integrate the company's recent series of acquisitions.
- Extensive nationwide 750 MHz fiber optic broadband network that is the most advanced in the world today. This enables the company to provide a unique bundled service offering to residential and business customers that includes telephone, cable, and Internet services.
- Strong growth opportunities, both organically and through



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continued acquisitions, as the company is at a point where it can leverage off of its existing fixed cost base, giving it the ability to accelerate EBITDA growth on a quarter-to-quarter basis.

- Aggressive, well-regarded management team that has created excellent value for investors.

Credit Challenges

- Aggressive acquisition plans that have extended to Europe. These transactions, coupled with ongoing capital requirements for upgrades and plans to bid for programming assets will keep NTL's appetite for debt high.

Financial Performance

For the quarter ended March 31, 2000, the company had run rate revenues of \$2.0 billion and EBITDA of \$275 million. Total revenues during the quarter consisted of \$253.6 million (51.6% of total revenues) from local telecommunications and television, \$181.5 million (37% of total revenues) from national and international telecommunications, and \$55.9 million (11.4% of total revenues) from broadcast transmission. The company has begun to upgrade the cable systems of BT, Cablelink, and 1G, which are currently EBITDA positive. Consequently, it is expected that these systems will generate EBITDA losses through 2001 as NTL continues to upgrade the systems and begins to roll out new services. NTL ended the quarter with a total of 3.2 million subscribers in telephony and cable services, with a 1.1% monthly churn rate. Internet customers increased from 215,000 to 999,700 at the end of the quarter. The company's business customers increased from 36,100 to 46,200. Total debt at the end of the quarter was \$10.5 billion and \$12.5 billion including preferred stock.



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